

Staff Report

**NOVEMBER MODIFICATION  
FYs 2023-2026**

December 22, 2022



**NEW YORK STATE  
FINANCIAL CONTROL BOARD**

# STAFF OF THE NEW YORK STATE FINANCIAL CONTROL BOARD

## SENIOR STAFF

Barbara Marin  
*Administration*

Eng-Kai Tan  
*Economic and Revenue  
Analysis*

Steven A. Bollon  
*Expenditure and Covered  
Organization Analysis*

Michelle McManus  
*Finance and Capital  
Analysis*

## ANALYTIC STAFF

Millicent Budhai  
Sabrina Carione  
Mariko Matsuyoshi  
Iwona Matusiak  
Orlando Vasquez

## ADMINISTRATIVE AND SUPPORT STAFF

Soncire Abadia  
Taina M. Sanchez

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## I. Overview

The city's economy continues its rebound from the pandemic. The labor market remains strong, with total payroll employment increasing in the first eleven months of the year, higher than the nation's over the same period. The growth was driven primarily by increases in the leisure and hospitality, information, and professional and business sectors. The city projects continued expansion in the local employment level in 2022, reaching prepandemic levels by the latter half of 2024. However, average wages are expected to fall in the last quarter of 2022 along with lower Wall Street profits. Wall Street profits dropped from \$44.9 billion in the first three quarters of 2021 to \$19.3 billion for the same period in 2022, declining 57 percent.

The commercial real estate continues to show signs of distress. According to Cushman and Wakefield, the Manhattan office vacancy rate is the highest on record. Additionally, the residential real estate is expected to moderate in 2022 and 2023 as housing prices remain elevated due to short supply and mortgage rates continue to rise as the Federal Reserve tightens monetary policy to combat inflation. Over the first three quarters of the year, the number of building permits has declined from a year ago, although the number of units permitted to be built has increased. Even with changes in economic indicators, the city chose not to adjust its tax revenue estimates in the November modification to the June 2022 financial plan.

The November 2022 modification assumes a balanced budget of \$104 billion in FY 2023, a \$2.9 billion increase from the June financial plan. The increase is entirely in the noncity-fund portion of the budget, driven primarily by a \$2.5 billion increase in federal categorical aid and corresponding expenditures. City-fund revenues remain unchanged from the adopted budget. However, city-fund expenditures are \$705 million below the adopted budget, resulting in a budget surplus to fund a Budget Stabilization Account to prepay FY 2024 debt service. The reduction in city-fund expenditures stem from savings in the Program to Eliminate the Gap (PEG).

City-fund revenues in the outyears for the November modification remain relatively unchanged from the June financial plan, with no change in tax revenue forecast and modest increases in miscellaneous revenues. Excluding PEG savings, city-fund expenditures were revised upwards by \$999 million in FY 2024, \$2.4 billion in FY 2025, and \$3.4 billion in FY 2026. The increase reflects additional pension contributions from the phase-in of the recognition of FY 2022 pension investments losses. These additional contributions begin at \$861 million in FY 2024 and grow to \$3 billion by FY 2026. Savings from PEGs and prepayment of FY 2024 debt service offset the additional city-fund expenditures in FY 2024 and help reduce the budget gap to \$2.9 billion. However, the increases in the latter part of the plan period far exceed the PEG savings causing the budget gaps in each of FYs 2025 and 2026 to grow to \$4.6 billion, and \$5.9 billion, respectively.

The city faces challenging fiscal times ahead. While we forecast tax revenues to be above the city's forecast by more than \$1.7 billion in each fiscal year of the modification, our forecasted revenue growth over the plan period is subdued, reflecting the economic

uncertainties and challenges confronting the city. However, our analysis of city-fund expenditures identified risks that in total eclipse our higher revenue forecast. We estimate that city-fund expenditures could exceed the city's projections by \$2 billion, \$2.6 billion, \$2.9 billion, and \$3.4 billion over FYs 2023 through 2026, respectively. Based on our analysis, we estimate a marginal deficit of \$12 million in FY 2023 and larger budget gaps of \$3.3 billion in FY 2024, \$5.5 billion in FY 2025 and \$6.9 billion in FY 2026.

In addition to the risks quantified, looming over the budget is the funding for new labor agreements. The city's labor contracts have mostly expired. While the budget includes funding for a 1.25 percent annual wage increase, given the elevated inflationary environment, it is likely that labor settlement would exceed the increase assumed in the budget. Addressing these fiscal challenges amid an uncertain economic outlook is a formidable task. As such, we continue to call for meaningful recurring PEG savings along with a focus on building long-term reserves as part of the budget process to prepare for the fiscal challenges confronting the city.

The city could also be facing additional fiscal challenges from the debt service costs associated with the implementation of its capital plan. Although the burden is estimated to remain affordable, debt service is projected to grow at a faster average annual rate of 6.3 percent compared to tax revenues at 1.8 percent over FYs 2023-26. Potentially putting further upward pressure on future debt service projections is the combination of rising interest rates and increasing capital construction costs due to inflation. Given the potential factors affecting debt service and the uncertainty surrounding the city's economy, we encourage the city to be more judicious in planning the size of the capital program in its upcoming preliminary ten-year capital strategy to ensure it remains manageable and within the affordability parameter.

**NOVEMBER MODIFICATION:  
THE CITY'S OPERATING PROJECTIONS FOR  
FISCAL YEARS 2023-2026**

TABLE 1 (\$ in millions)

	FY 2023	FY 2024	FY 2025	FY 2026
<b><u>Revenues</u></b>				
Taxes:				
General Property	\$31,277	\$31,871	\$32,006	\$32,018
Other Taxes	35,751	35,795	37,346	38,778
Tax Audit Revenue	721	721	721	721
Miscellaneous Revenues	7,480	7,296	7,299	7,315
Unrestricted Intergovernmental Aid	252	--	--	--
Less: Intracity Revenues	(2,143)	(1,919)	(1,920)	(1,918)
Disallowances	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>
Total City Funds	\$73,323	\$73,749	\$75,437	\$76,899
Other Categorical Grants	1,154	1,059	1,056	1,055
Interfund Revenues	741	736	736	736
Federal Categorical Grants	11,811	9,019	7,731	7,024
State Categorical Grants	<u>16,974</u>	<u>16,931</u>	<u>17,170</u>	<u>17,223</u>
<b>Total Revenues</b>	<b><u>\$104,003</u></b>	<b><u>\$101,494</u></b>	<b><u>\$102,130</u></b>	<b><u>\$102,937</u></b>
<b><u>Expenditures</u></b>				
Personal Service	\$53,451	\$54,815	\$56,444	\$58,045
Other Than Personal Service	48,644	42,788	42,301	42,072
General Obligation, Lease & TFA Debt Service	7,655	7,955	8,435	9,203
Budget Stabilization & Prepayments	(5,409)	(705)	--	--
Capital Stabilization Reserve	250	250	250	250
General Reserve	<u>1,555</u>	<u>1,200</u>	<u>1,200</u>	<u>1,200</u>
Subtotal	\$106,146	\$106,303	\$108,630	\$110,770
Less: Intracity Expenditures	<u>(2,143)</u>	<u>(1,919)</u>	<u>(1,920)</u>	<u>(1,918)</u>
<b>Total Expenditures</b>	<b><u>\$104,003</u></b>	<b><u>\$104,384</u></b>	<b><u>\$106,710</u></b>	<b><u>\$108,852</u></b>
<b><u>Gap To Be Closed</u></b>	<b><u>\$0</u></b>	<b><u>(\$2,890)</u></b>	<b><u>(\$4,580)</u></b>	<b><u>(\$5,915)</u></b>

**CHANGES TO THE CITY'S OPERATING PROJECTIONS FOR  
FISCAL YEARS 2023-2026  
NOVEMBER MODIFICATION COMPARED TO JUNE MODIFICATION**

TABLE 2 (\$ in millions)

	FY 2023	FY 2024	FY 2025	FY 2026
<b><u>Revenues</u></b>				
Taxes:				
General Property	--	--	--	--
Other Taxes	--	--	--	--
Tax Audit Revenue	--	--	--	--
Miscellaneous Revenues	\$169	\$41	\$37	\$32
Unrestricted Intergovernmental Aid	--	--	--	--
Less: Intracity Revenues	(169)	20	9	11
Disallowances	--	--	--	--
Total City Funds	\$0	\$61	\$46	\$43
Other Categorical Grants	125	43	41	43
Interfund Revenues	5	4	5	5
Federal Categorical Grants	2,527	343	(227)	50
State Categorical Grants	222	41	36	35
<b>Total Revenues</b>	<b><u>\$2,879</u></b>	<b><u>\$492</u></b>	<b><u>(\$99)</u></b>	<b><u>\$176</u></b>
<b><u>Expenditures</u></b>				
Personal Service	(\$271)	\$384	\$1,457	\$2,625
Other Than Personal Service	2,712	(396)	(537)	(354)
General Obligation, Lease & TFA Debt Service	(98)	(131)	(162)	(171)
Budget Stabilization & Prepayments	705	(705)	--	--
Capital Stabilization Reserve	--	--	--	--
General Reserve	--	--	--	--
Subtotal	\$3,048	(\$848)	\$758	\$2,100
Less: Intracity Expenditures	(169)	20	9	11
<b>Total Expenditures</b>	<b><u>\$2,879</u></b>	<b><u>(\$828)</u></b>	<b><u>\$767</u></b>	<b><u>\$2,111</u></b>
<b>Decrease/(Increase) to the Gap</b>	<b>\$0</b>	<b>\$1,320</b>	<b>(\$866)</b>	<b>(\$1,935)</b>



# RISKS TO THE FINANCIAL PLAN

TABLE 3

(\$ in millions, positive numbers are offsets to risks)

	FY 2023	FY 2024	FY 2025	FY 2026
<b>Stated Financial Plan Gap</b>	<b>\$0</b>	<b>(\$2,890)</b>	<b>(\$4,580)</b>	<b>(\$5,915)</b>
<b><u>Tax Revenues</u></b>				
Property Tax	\$373	\$276	\$419	\$558
Nonproperty Tax	<u>1,423</u>	<u>1,670</u>	<u>1,408</u>	<u>1,745</u>
<b>Subtotal Tax Revenues</b>	<b>\$1,796</b>	<b>\$1,946</b>	<b>\$1,827</b>	<b>\$2,303</b>
<b><u>Nontax Revenues</u></b>				
Interest Income	\$115	\$114	\$53	\$21
Fines	<u>90</u>	<u>92</u>	<u>92</u>	<u>92</u>
<b>Subtotal Nontax Revenues</b>	<b>\$205</b>	<b>\$206</b>	<b>\$145</b>	<b>\$113</b>
<b><u>Expenditures</u></b>				
Support for Asylum Seekers	(\$1,000)	(\$500)	(\$500)	(\$500)
Uniformed Services Overtime	(482)	(552)	(554)	(557)
Carter Cases	(472)	(472)	(472)	(472)
Foster Care	(59)	(117)	(117)	(117)
Charter Schools	0	(278)	(430)	(723)
Rental Assistance	0	(237)	(237)	(229)
Summer Rising	0	(176)	(176)	(176)
Pupil Transportation	0	(75)	(125)	(175)
Shelter Security	0	(66)	(66)	(66)
Shelter Operations	0	(68)	(68)	(68)
Contracted Nursing	0	(49)	(49)	(49)
Mental Health Services	0	0	(37)	(86)
Community Schools	0	0	(27)	(51)
Pre-K and 3-K Expansion	<u>0</u>	<u>0</u>	<u>0</u>	<u>(109)</u>
<b>Subtotal Expenditures</b>	<b>(\$2,013)</b>	<b>(\$2,590)</b>	<b>(\$2,858)</b>	<b>(\$3,378)</b>
<b>Total (Risks)/Offsets</b>	<b><u>(\$12)</u></b>	<b><u>(\$438)</u></b>	<b><u>(\$886)</u></b>	<b><u>(\$962)</u></b>
<b>Total FCB Estimated Surplus/(Gap)</b>	<b><u>(\$12)</u></b>	<b><u>(\$3,328)</u></b>	<b><u>(\$5,466)</u></b>	<b><u>(\$6,877)</u></b>

## II. Review of the November Modification

The November 2022 modification assumes a balanced budget of \$104 billion in FY 2023, a \$2.9 billion increase from the June financial plan. The increase is entirely in the noncity-fund portion of the budget, driven primarily by a \$2.5 billion increase in federal categorical aid and corresponding expenditures. City-fund revenues remain unchanged from the adopted budget. However, city-fund expenditures are \$705 million below the adopted budget, resulting in a budget surplus to fund the Budget Stabilization Account to prepay FY 2024 debt service. The reduction in city-fund expenditures stems from savings in the November modification Program to Eliminate the Gap (PEG), which is estimated to reduce spending by \$916 million in FY 2023 and \$1.46 billion in each of the outyears.<sup>1</sup>

City-fund revenues in the outyears for the November modification remain relatively unchanged from the June financial plan, with no change in the tax revenue forecast and modest increases ranging from \$61 million in FY 2024 to \$43 million in FY 2026 in nontax revenues. Excluding PEG savings, city-fund expenditures were revised upwards by \$999 million in FY 2024, \$2.4 billion in FY 2025, and \$3.4 billion in FY 2026. The increase reflects additional pension contributions from the phase-in of the recognition of FY 2022 pension investments losses. These additional contributions begin at \$861 million in FY 2024 and grow to \$3 billion by FY 2026. Savings from PEGs offset the additional city-fund expenditures in FY 2024 and help reduce the budget gap to \$2.9 billion. However, the increases in the latter part of the plan period far exceed the PEG savings causing the gaps in each of FYs 2025 and 2026 to grow to \$4.6 billion and \$5.9 billion, respectively.

The city faces challenging fiscal times ahead. We estimate that budget gaps could reach \$3.3 billion in FY 2024, \$5.5 billion in FY 2025, and \$6.9 billion in FY 2026. While we forecast tax revenues to be above the city's forecast by more than \$1.7 billion in each fiscal year of the plan, our forecasted revenue growth over the plan period is subdued, reflecting the economic uncertainties and challenges confronting the city. Our forecasted annual growth of 1.5 percent is about a third of the 4.3 percent annual growth in the four years preceding the onset of the pandemic in FY 2020. However, our analysis of city-fund expenditures identified risks that in total eclipse our higher revenue forecast. We estimate that city-fund expenditures could exceed the city's projections by \$2 billion, \$2.6 billion, \$2.9 billion, and \$3.4 billion over FYs 2023 through 2026, respectively, resulting in a marginal deficit of \$12 million in FY 2023, and widening projected gaps by \$438 million in FY 2024, \$886 million in FY 2025, and \$962 million in FY 2026.

In addition to the risks quantified in Table 3 on page 5, looming over the budget is the funding for new labor agreements. The city's labor contracts have mostly expired. While the budget includes funding for a 1.25 percent annual wage increase, given the elevated inflationary environment, it is likely that labor settlement would exceed the

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<sup>1</sup> In addition to spending reductions, the November PEGs also include additional revenues totaling a modest \$150 million over the plan period.

increase assumed in the budget. Addressing these fiscal challenges amid an uncertain economic outlook is a formidable task. As such, we continue to call for meaningful recurring PEG savings along with a focus on building long-term reserves as part of the budget process to prepare for the fiscal challenges confronting the city.

The city could also be facing additional fiscal challenges from the debt service costs associated with the implementation of its capital plan. Although the burden is estimated to remain affordable, debt service is projected to grow at a faster average annual rate compared to tax revenues over FYs 2023-26. Potentially putting further upward pressure on future debt service projections is the combination of rising interest rates and increasing capital construction costs due to inflation.

## **ECONOMIC OUTLOOK**

### **The U.S. Economy**

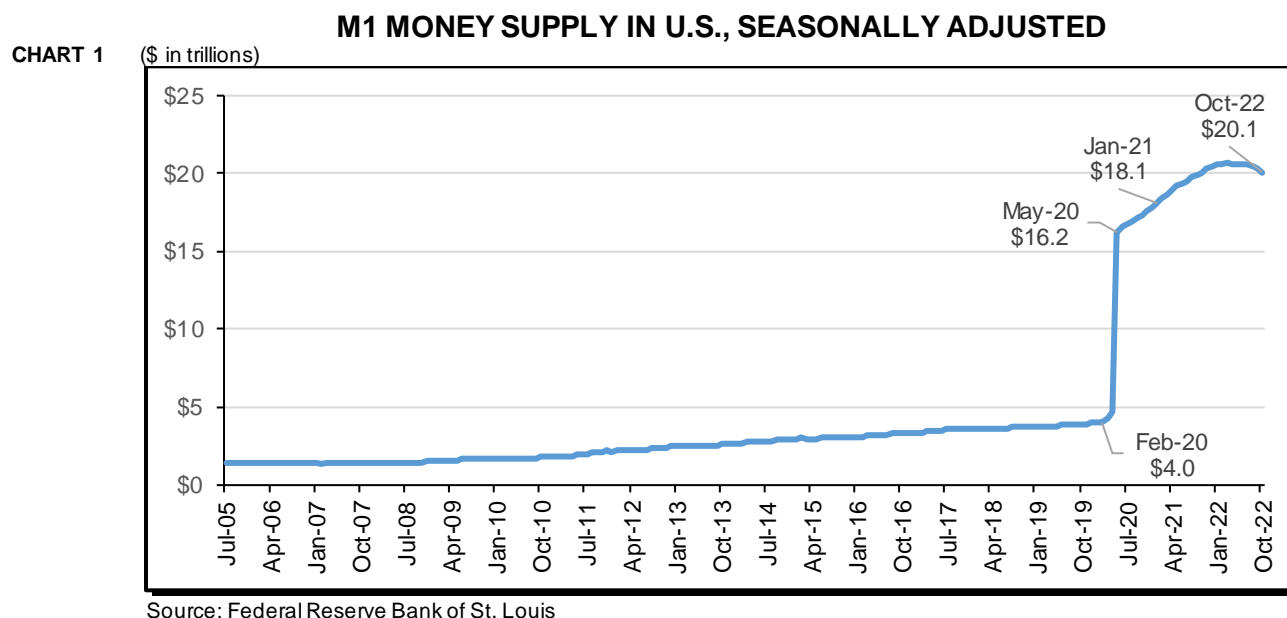
While several economic indicators continue to show strength, the economy faces uncertainty going forward. Supply chain disruptions from the pandemic have abated, but unprecedented fiscal and monetary stimulus in the wake of the pandemic and the ongoing war in Ukraine continue to exert inflationary pressure on the economy. A slowdown in China's economy and aggressive monetary tightening by the central banks in the United States and other major economies to tame inflation have increased the risk of recession in 2023.

After consecutive declines in the real gross domestic product (GDP) of 1.6 percent and 0.6 percent in the first and second quarters of 2022, respectively, the national economy grew 2.9 percent in the third quarter of 2022. Overall, through the first three quarters of 2022, real GDP grew 2.4 percent from the same period last year, driven by growth in personal consumption and private domestic investment. Personal consumption expenditures, which account for about 70 percent of GDP, increased 3.1 percent, while gross private domestic investment grew 6.9 percent. Exports grew 8.0 percent, whereas imports, which deduct from GDP, increased by 10.4 percent, and government consumption expenditures and investment dropped 1.1 percent, tempering overall growth.

The labor market continues to be a source of strength in the economy. Total payroll employment surpassed the February 2020 prepandemic level of 152,504,000 by 1,044,000 in November 2022. Additionally, payroll employment has been growing at a healthy pace since January 2021, although recent growth has been decelerating. The unemployment rate remains low at 3.7 percent though the labor force participation rate stands at 1.3 percentage points below the prepandemic rate of 63.4 percent of February 2020. The strong labor market gives the Federal Reserve greater latitude in monetary tightening measures to tame inflation.

Inflation remains a major threat to the U.S. economy. While inflation has eased since a four-decades high of 9.1 percent in June, it remains elevated. The headline consumer price index (CPI) inflation rate increased 7.1 percent in November from a year ago. Similarly, the Personal Consumption Expenditure (PCE) inflation rate increased 6.0

percent in October from a year ago, lower than the 7.0 percent increase in June, nevertheless it is still three times the Federal Reserve's target rate of 2.0 percent. Even though supply chain disruptions precipitated by COVID lockdowns have abated, the impact of unprecedented liquidity in the economy from fiscal and monetary stimuli in the wake of the pandemic is still being felt. As seen in Chart 1, the stimulus injected record liquidity into the economy with the M1 money supply increasing by \$16.1 trillion in October 2022, from a prepandemic level of \$4.0 trillion in February 2020, an increase of 402.1 percent.<sup>2</sup> In addition, the ongoing war in Ukraine continues to disrupt energy and food supply as well as trade, exerting inflationary pressure worldwide.



To tame inflation, the Federal Reserve adopted an aggressive monetary tightening policy in the Spring of 2022. Following increases of 25, 50, and four consecutive 75 basis points beginning in March, the Federal Reserve raised the federal funds rate by 50 basis points on December 14, 2022, to a target range of 4.25 to 4.50 percent. Forward guidance from the Federal Reserve, based on its assessment of inflation, indicates that it will continue to raise the federal funds rate in 2023 to a target of 5.1 – 5.4 percent. In addition to the rate increases, the Federal Reserve embarked on a quantitative tightening program in June to reduce its balance sheet by \$47.5 billion a month in the first three months and

<sup>2</sup> According to the Federal Reserve Bank of St. Louis M1 money supply “M1 consists of (1) currency outside the U.S. Treasury, Federal Reserve Banks, and the vaults of depository institutions; (2) demand deposits at commercial banks (excluding those amounts held by depository institutions, the U.S. government, and foreign banks and official institutions) less cash items in the process of collection and Federal Reserve float; and (3) other liquid deposits, consisting of OCDs and savings deposits (including money market deposit accounts).”

\$95 billion a month thereafter to increase long-term interest rates and reduce liquidity in the economy.

The deceleration in inflation since June suggests that the Federal Reserve's tightening is having some effect in reining in inflation. Despite the deceleration, inflation remains stubbornly high and the Federal Reserve will stay its current course until inflation data shows that pressure is abating and the goal of 2.0 percent can be achieved. While the robust labor market gives the Federal Reserve greater latitude in its monetary policies, several factors including the economic impact of the war in Ukraine, economic slowdown in China, and monetary tightening in major economies around the world could thwart the Federal Reserve's effort to engineer a soft landing. The yield curve, a traditional indicator of recession, has now inverted. The spread between the 10-year Treasury notes and the 3-month Treasury bills has been negative since October 25, 2022, signaling challenging and uncertain times ahead.

### **The City Economy**

The city's economy continues its rebound from the pandemic. The labor market remains strong, with total payroll employment increasing 6.6 percent in the first 11 months of the year, much higher than the nation's 4.1 percent over the same period. The growth was driven primarily by increases of 31.3 percent in the leisure and hospitality sector, 8.5 percent in the information sector, and 7.9 percent in the professional and business sector. The unemployment rate, which averaged 12.5 percent in the first 11 months of 2020, has been declining, falling to 6.0 percent in the first 11 months of 2022. Initial unemployment insurance claims, which rose to an average of 171,286 in the first 11 months of 2020, have declined to 28,104 in the same period of 2022. The city projects continued expansion in the local employment level in 2022, reaching prepandemic levels by the latter half of 2024. However, average wages are expected to fall in the last quarter of 2022 along with lower Wall Street profits. Wall Street profits dropped from \$44.9 billion in the first three quarters of 2021 to \$19.3 billion in the same period in 2022, declining 57.0 percent.

Another bright spot in the local economy is tourism, which continues to improve as evidenced by the employment growth in the leisure and hospitality sector. Data from the Port Authority of NY and NJ shows that the number of revenue passengers (a proxy for tourists) arriving at John F. Kennedy International Airport and LaGuardia Airport increased from 30.1 million in the first nine months of 2021 to 61.7 million in the same period in 2022, a 105.4 percent increase.

On the other hand, the commercial real estate continues to show signs of distress. According to Cushman and Wakefield, the Manhattan office vacancy rate is the highest on record, 21.9 percent in the third quarter of 2022, up from 19.0 percent in the same time last year. The residential real estate is also expected to moderate in 2022 and 2023 as housing prices remain elevated due to short supply and mortgage rates continue to rise while the Federal Reserve tightens monetary policy to combat inflation. Over the first three quarters of the year, the number of building permits has declined 37.3 percent from a year ago, although the number of units permitted to be built has increased 28.7 percent.

Much like the national economy, inflation is the dominant threat to the local economy. The metro area headline CPI inflation rate increased 6.1 percent in the first 11 months of 2022 from the same period a year ago, while lower than the nation's 8.1 percent, it is still elevated. The two most volatile components of the CPI, energy and food, increased by 26.2 percent and 8.8 percent, respectively, from a year ago. In addition to inflation, other salient risks to the local economy include the Federal Reserve's ability to engineer a soft landing for the economy and the potential of an increase in COVID infections from the emergence of new strains of the virus.

## **REVENUES**

FY 2023 revenues in the November modification total \$104.00 billion, an increase of \$2.88 billion from the FY 2023 adopted budget. The revision to revenues stems entirely from revisions to noncity-fund revenues. Tax revenues and nontax city-fund revenues remain unchanged from the adopted budget despite changes in the city's economic indicator forecast. Over the plan period, revenues are projected to drop by \$1.07 billion to \$102.94 billion in FY 2026. This drop reflects a decline of \$4.64 billion in noncity-fund revenues, driven by a reduction of \$4.79 billion in federal aid with a modest offset from a \$249 million increase in state aid over the plan period.

### **Tax Revenues**

Tax revenues in the November modification are forecasted to grow from \$67.75 billion in FY 2023 to \$71.52 billion by FY 2026. The modification projects double-digit percent declines in FY 2023 for business tax, property-related tax and audit revenues, and single-digit declines for personal income tax (PIT), and total revenues, as shown in Table 4 on page 11, resulting in a projected decline of \$1.85 billion in total tax revenues from FY 2022. PIT and business tax revenues continue to decline, but at a slower rate, in FY 2024. Nonproperty tax revenues are not expected to recover to their FY 2022 levels over the plan period, with PIT, business tax, and property-related tax remaining below FY 2022 levels in FY 2026 as displayed in Chart 2 on page 11. Overall, total tax revenues are expected to grow modestly, with projected annual growth of less than one percent. Sales, property and all other tax revenues are the only tax revenues with projected growth over the plan period. However, the growth in property tax revenues decelerates over the plan period, with growth essentially flat in FY 2025 and FY 2026. In contrast, the growth in sales tax revenues picks up in the outyears of the plan. Hence, while property tax revenues prop up total tax revenue growth in FYs 2023-24, it is the nonproperty tax revenues that drive total tax revenue growth in FYs 2025-26.

## NOVEMBER MODIFICATION TAX REVENUE GROWTH

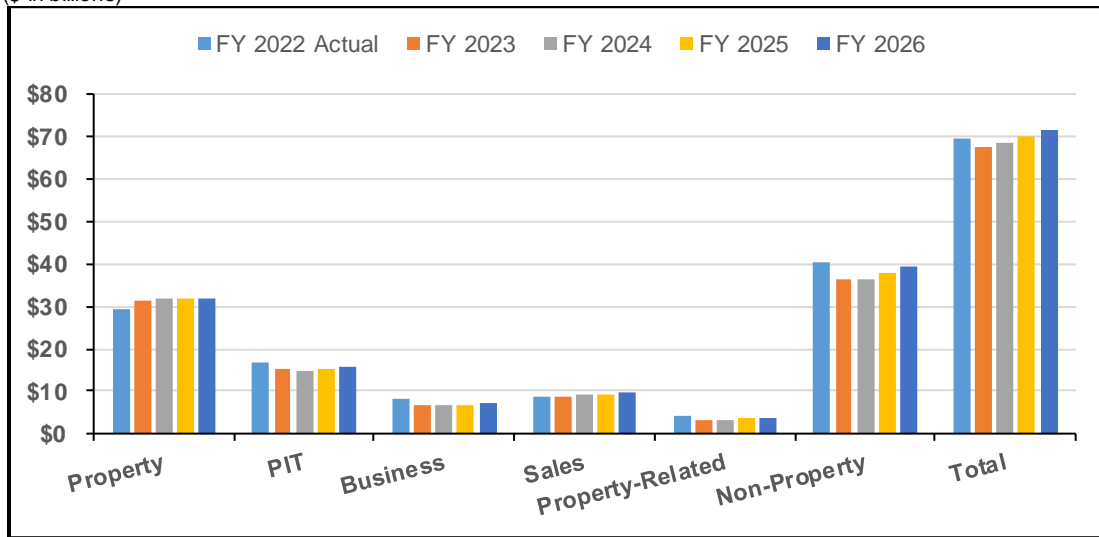
TABLE 4

<b>November Modification</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>Average Annual Growth*</b>
Property	6.3%	1.9%	0.4%	0.0%	2.1%
PIT	(8.5%)	(2.9%)	4.2%	2.6%	(1.3%)
Business	(18.4%)	(2.1%)	3.6%	5.5%	(3.3%)
Sales	0.7%	4.3%	5.0%	5.6%	3.9%
Property-Related	(21.8%)	5.9%	5.3%	2.4%	(2.8%)
All Other	11.9%	3.4%	3.2%	1.6%	4.9%
Audit	(15.1%)	0.0%	0.0%	0.0%	(4.0%)
<b>Total</b>	<b>(2.7%)</b>	<b>0.9%</b>	<b>2.5%</b>	<b>2.1%</b>	<b>0.7%</b>

Note: Property-Related = Real Property Transaction, Mortgage Recording, and Commercial Rent Tax.  
 \* Base year is FY 2022

**FY 2022 ACTUAL TAX REVENUES AND NOVEMBER MODIFICATION FORECAST**  
 (\$ in billions)

CHART 2



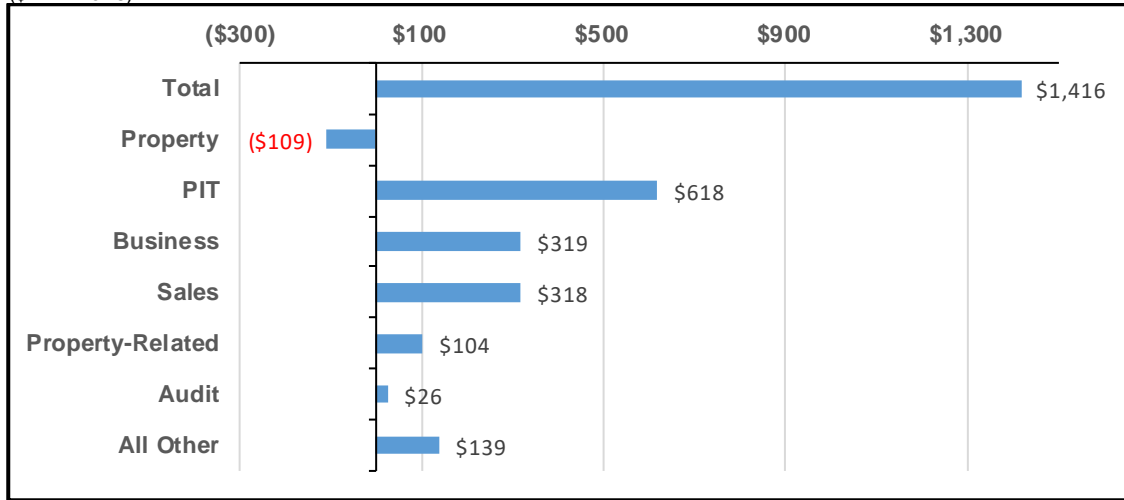
Source: NYC Office of Management and Budget

The tax revenue forecast in the November modification is unchanged from the June financial plan despite better-than-anticipated tax collections through October. Collections for the first four months of the current fiscal year are generally coming in stronger than the adopted budget June cash plan projections and from the same period in FY 2022. Total collections are above the June financial plan by \$1.42 billion, driven by higher nonproperty tax collections, as shown in Chart 3 on page 12.

### TOTAL COLLECTIONS THROUGH OCTOBER - DEVIATIONS FROM JUNE PLAN

CHART 3

(\$ in millions)



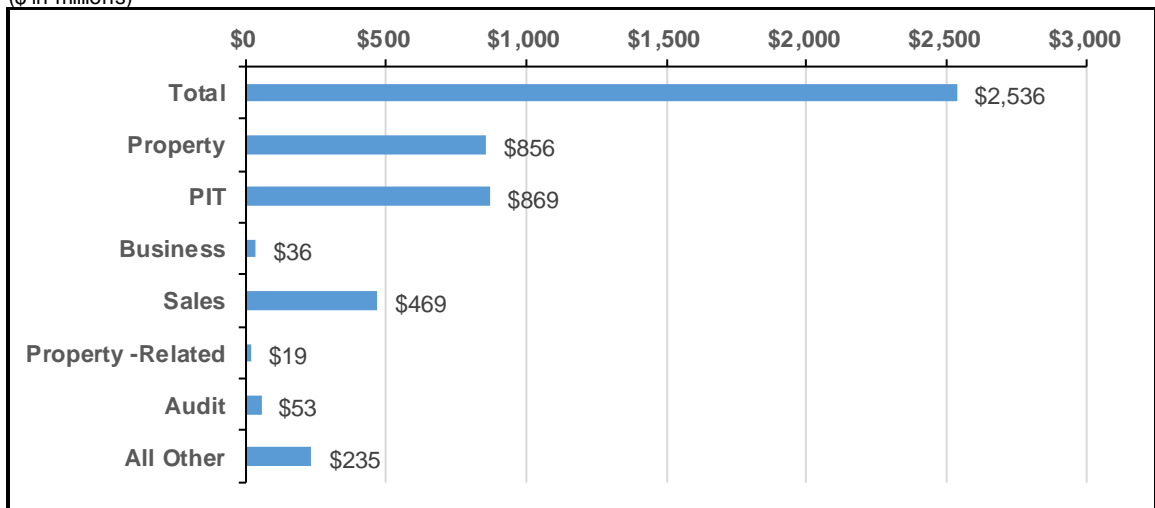
Source: NYC Office of Management and Budget.

When compared with FY 2022, collections for all major tax categories over the first four months of the current fiscal year exceed those over a comparable period in FY 2022, as shown in Chart 4. Total collections are higher by \$2.54 billion, driven by higher collections for both property and nonproperty tax revenues. PIT and sales have performed well compared with the June financial plan and FY 2022, and although property is below the June financial plan projections by \$109 million, it exceeds FY 2022 by \$856 million. Business and property-related collections are stronger than the June financial plan projections but are only modestly ahead year over year. Much of higher collections for the All Other category is driven by hotel tax as tourism continues its recovery.

### YEAR-OVER-YEAR DIFFERENCE IN COLLECTIONS OVER THE FIRST FOUR MONTHS FY 2023 VS FY 2022

CHART 4

(\$ in millions)



Source: NYC Office of Management and Budget.



Based on year to date collection and our economic forecast, the FCB estimates that tax revenues could exceed the city's projections in each year of the plan, beginning at \$1.80 billion in FY 2023 and growing to \$2.30 billion by FY 2026, as shown in Table 3 on page 5. Most of the FCB's higher tax revenue forecast is in nonproperty tax revenues which are projected to be above plan projections by more than \$1 billion in each year of the plan.

### **Miscellaneous Revenues**

Miscellaneous revenues in the November modification, excluding intra-city revenues, remain relatively unchanged over the plan period, with no change in FY 2023 and modest increases ranging from \$61 million in FY 2024 to \$43 million in FY 2026. Overall, miscellaneous revenues are projected to stay relatively flat, growing marginally from \$5.34 billion in FY 2023 to \$5.40 billion in FY 2026, as shown in Table 5.

### **NOVEMBER MODIFICATION MISCELLANEOUS REVENUES**

**TABLE 5** (\$ in millions)

	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>Change FYs 2023-26</u>
Cost-Based Charges					
Charges for Service	\$1,029	\$1,035	\$1,034	\$1,034	\$5
Licenses	63	67	64	67	4
Permits	<u>303</u>	<u>303</u>	<u>303</u>	<u>303</u>	<u>0</u>
<b>Subtotal Cost-Based Charges</b>	<b>\$1,395</b>	<b>\$1,405</b>	<b>\$1,401</b>	<b>\$1,405</b>	<b>\$9</b>
Water and Sewer Charges	1,801	1,752	1,739	1,733	(68)
Fines and Forfeitures	1,076	1,128	1,122	1,120	44
Franchises and Other Privileges	371	328	330	331	(40)
Interest Income	107	161	195	217	109
Miscellaneous	336	351	341	340	3
Rental Income	<u>250</u>	<u>252</u>	<u>252</u>	<u>252</u>	<u>2</u>
<b>Total</b>	<b>\$5,337</b>	<b>\$5,378</b>	<b>\$5,380</b>	<b>\$5,397</b>	<b>\$60</b>
Numbers may not add due to rounding.					

Cost-based charges, and water and sewer charges account for about 60 percent of miscellaneous revenues. Cost-based charges, which include charges for services, licenses and permits, are revenues collected for providing services and for the most part cover the cost of providing services. Similarly, water and sewer charges are reimbursements to the city for the operation and maintenance of the water delivery and wastewater disposal systems. As such, revenues from both these categories are generally not available for budget relief.

Excluding cost-based, and water and sewer charges, the remaining categories are projected to grow \$119 million over the plan period, from \$2.14 billion to \$2.26 billion. The growth stems primarily from the interest income, which is projected to more than double from \$107 million in FY 2023 to \$217 billion in FY 2026.

Collections to date indicate that miscellaneous revenues could be higher than projected in the November modification. The FCB estimates that nontax revenues could exceed the November modification estimates by \$205 million in FY 2023, \$206 million in 2024, \$145 million in FY 2025 and \$113 million in FY 2026, as shown in Table 3 on page 5.

## Federal and State Aid

Federal and state grants in the November modification total \$28.79 billion in FY 2023, and together account for 27.7 percent of total revenues. Over the plan period, federal and state grants are projected to decline by \$4.54 billion to \$24.25 billion in FY 2026, accounting for 23.6 percent of revenues by then.

FY 2023 federal aid is \$2.53 billion above the adopted budget estimate. The assumption of federal support for asylum seekers and additional Federal Emergency Management Agency (FEMA) COVID relief account for almost \$1.5 billion of the increase, as shown in Table 6.<sup>3</sup>

**TABLE 6** **PLAN-TO-PLAN CHANGES IN FEDERAL AID**  
(\$ in millions)

<u>November Modification</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Asylum Seekers	\$1,000	\$0	\$0	\$0
FEMA COVID	481	0	0	0
Prior-Year Revenue	186	0	15	0
Roll-over	167	2	0	0
Epidemiology & Laboratory Capacity	106	0	0	0
Vaccination	72	1	0	0
ARPA SLFRF	34	0	0	0
3-K Right Sizing - ARPA				
Elementary And Secondary School	0	284	(284)	0
Other	482	56	42	49
<b>Total</b>	<b>\$2,528</b>	<b>\$343</b>	<b>(\$226)</b>	<b>\$49</b>
Numbers may not add due to rounding.				

In total, federal aid is projected to decline by \$4.79 billion from \$11.81 billion in FY 2023 to \$7.02 billion in FY 2026, a level consistent with prepandemic federal aid. The sharp drop reflects the winding down of federal COVID support, which is projected to drop from \$3.21 billion in FY 2023 to \$15 million in FY 2026. Through FY 2022, the city has recognized about \$19 billion in federal COVID related support. The November modification assumes \$6.10 billion of federal COVID support over the plan period. However, based on recognized revenues from the American Rescue Plan Act State and Local Relief Fund (ARPA and SLFRF) in the last two fiscal years and budget projections, there is \$1.08 billion of unbudgeted ARPA SLFRF grants. It is likely that this unallocated grant will be included in the preliminary budget in January.

In addition, the assumption of \$1 billion of federal support in FY 2023 for asylum seekers does not extend into the outyears. Net of federal COVID and asylum seekers

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<sup>3</sup> Currently, there is a federal omnibus spending bill to be voted on this week, which includes \$800 million for states to support the cost of providing for asylum seekers. It is unclear at this time how the bill will affect federal aid to the city. We expect to see any impact from the spending bill reflected in the city's upcoming preliminary budget.

support, federal aid is projected to decline by a more modest \$591 million from \$7.60 billion in FY 2023 to \$7.01 billion in FY 2026.

State aid increased by \$222 million in FY 2023, and between \$34 million and \$39 million in each of FY 2024 through FY 2026. The increase in FY 2023 reflects upward revisions of \$63 million for health and mental hygiene, \$42 million for education, \$41 million for social services and \$76 million for all others. About \$45 million of the increase is from the roll-over of prior-year grants, of which \$40 million is from the roll-over of Smart School Bond Act grants for supplemental school connectivity and smart school technology.

Overall, state aid in the November modification totals \$16.97 billion in FY 2023 and is projected to increase by a modest 1.5 percent to \$17.22 billion by FY 2026. The increase stems primarily from a projected growth of \$366 million in education aid. Education aid is projected to increase from \$12.52 billion in FY 2023 to \$12.89 billion in FY 2026, driven by \$443 million increase in Foundation Aid. Social services and other state grants are projected to decline by \$118 million, tempering the overall increase in state aid over the plan period.

## **EXPENDITURE FORECAST**

Total-funded expenditures in FY 2023 are revised upwards to \$104.003 billion in the November 2022 modification, an increase of \$2.879 billion from the June financial plan, as shown in the figure to the right. The growth is entirely due to a rise in federal, state, and other-funded expenses, with federal-funded expenditures accounting for most of the increase.

<b>June to November Modification Expenditure Changes FY 2023</b> Total Funds (\$ in millions)	
<b>June Modification</b>	<b>\$101,124</b>
City Funds	\$0
Federal, State & Other	<u>2,879</u>
Total-Funded Increase	\$2,879
<b>November Modification</b>	<b>\$104,003</b>

The November modification increases FY 2023 federal-categorical expenditures by \$2.527 billion to \$11.811 billion. The increase includes additional federal-supported pandemic spending and \$1 billion in aid to cover the cost of providing for asylum seekers that have recently arrived at the city from other parts of the nation. The city anticipates that the federal aid will fully compensate expenses incurred to shelter and care for the thousands of individuals that have already arrived, some 19,500 to date.

More than half the cost of providing for asylum seekers in FY 2023 is in the Department of Homeless Services, as shown in the figure to the right. Health + Hospitals, which operate the Humanitarian Emergency Relief and Recovery Centers that provide temporary housing for the asylum seekers, as well as medical assistance, accounts for \$310 million. Remaining costs are spread among the Departments of Emergency Management, Information Technology and Telecommunications, and Social and Citywide Administrative Services, totaling a combined \$113 million. Missing from the cost estimates are expenses incurred by the Department of Education for providing services to English-learning students, which are likely to be added in the future. While

<b>Support for Asylum Seekers FY 2023</b> City Funds (\$ in millions)	
Homeless Services	\$577
Health + Hospitals	310
Emergency Management	50
DoITT	30
Social Services	23
Citywide Admin Services	<u>10</u>
<b>Total Support</b>	<b>\$1,000</b>

the city assumes the federal government will fully fund these expenses in FY 2023, we believe that full receipt of federal aid is at risk until there is clearer indication that federal support is forthcoming.<sup>4</sup> In addition, the care of these individuals will have residual expenses beyond FY 2023, which we estimate could cost at least \$500 million in each of FYs 2024-26, as shown on Table 3 on page 5.

### City-Funded Expenditure Changes June to November Modification for FY 2023

The November modification assumes city-funded expenditures, before prepayment of FY 2024 debt service, of \$73.323 billion, a decrease of \$705 million from the June plan, which is driven by spending reductions totaling \$916 million from the November modification Program to Eliminate the Gap (PEG). The budget surplus resulting from this reduction enables the city to fund a FY 2023 Budget Stabilization Account (BSA) to prepay a portion of FY 2024 debt service. After accounting for the planned prepayment of FY 2024 debt service, city-funded expenditures are unchanged from the June modification, as shown in the figure to the right. Increased spending in agencies totals \$211 million due primarily to new needs for the Board of Election, Rikers Island emergency work, the Taxi Medallion Relief Program, and other distinct items such as life and safety programs.

June to November Modification Expenditure Changes FY 2023 City Funds (\$ in millions)	
<b>June Modification</b>	<b>\$73,323</b>
Agencies	211
PEG	(916)
<b>Net City-Funded Increase</b>	<b>\$72,618</b>
FY 2023 BSA	705
<b>November Modification</b>	<b>\$73,323</b>

Categorically, the city allocates the PEG into four areas of savings - efficiency, expense and revenue reestimates, and debt service savings. For FY 2023, efficiency savings total \$149 million; expense and revenue reestimates sum to \$441 million and \$243 million, respectively; and debt service savings total \$83 million. Excluding nonagency savings, agency spending reduction totals \$811 million, 1.69 percent of the FY 2023 adopted budget city-funded expenditures, short of the three percent FY 2023 agency spending reduction directed in a September PEG letter to city agencies.<sup>5</sup>

One source of PEG savings is the reduction of headcount accruals and vacancies. Agencies have recognized just over \$41 million of these savings in FY 2023. Currently, the city is operating at well below its projected headcount for FY 2023, which indicates that there could be additional savings from accruals. The actual headcount as of September 2022 was 229,354, which is 3,014 less than June 2022 actuals. The planned headcount for the end of FY 2023, June 30, 2023, is projected to be 247, 373, or about 18,000 positions higher than the September 2022 count.

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<sup>4</sup> Until there is a final passage of the federal omnibus spending bill and a clear indication of the amount of federal support for asylum seekers the city will receive, we continue to hold the entire \$1 billion at risk in FY 2023.

<sup>5</sup> Nonagency savings include Health+Hospitals, pensions, miscellaneous, debt service, and inflation adjustments.

## FYs 2024-26 June Financial Plan to November Modification

In its June financial plan, the city projected total-funded expenditures would grow from \$105.212 billion in FY 2024 to \$106.741 billion in FY 2026, or \$1.529 billion. Expenditures in the November modification are projected to grow from \$104.384 billion to \$108.852 billion FYs 2024-26, as shown in Table 7. The increase in outyear expenditures between the plans is led by higher-than-expected city-funded spending on pensions and agency new needs.

### JUNE TO NOVEMBER MODIFICATION EXPENDITURE CHANGES FYs 2024-26

TABLE 7

Total Funds (\$ in millions)			
	FY 2024	FY 2025	FY 2026
<b>June Modification</b>	<b>\$105,212</b>	<b>\$105,943</b>	<b>\$106,741</b>
City Funds	(\$1,259)	\$912	\$1,978
Federal, State, & Other Funds	431	(145)	133
<b>Net Total-Funded Change</b>	<b>(\$828)</b>	<b>\$767</b>	<b>\$2,111</b>
<b>November Modification</b>	<b>\$104,384</b>	<b>\$106,710</b>	<b>\$108,852</b>

### City-Funded Expenditure Changes June to November Modification FYs 2024-26

As shown in Table 8, city-funded expenditures decline from \$77.898 billion in the June modification to \$76.639 billion in the November modification in FY 2024, or \$1.259 billion. The net decrease is a result of \$1.553 billion in budget savings and prepayment of \$705 million of expenses using FY 2023 surplus funds, which more than offsets higher pension and agency costs totaling \$999 million. The net decrease reduces the projected budget gap for FY 2024. The November modification projects a gap in FY 2024 of \$2.89 billion compared to \$4.21 billion in the June modification, a decrease of \$1.32 billion resulting from the drop in city-funded expenditures and a modest increase of \$61 million in nontax revenues.

### JUNE TO NOVEMBER MODIFICATION CHANGES FYs 2024-26

TABLE 8

City Funds (\$ in millions)			
	FY 2024	FY 2025	FY 2026
<b>June Modification</b>	<b>\$77,898</b>	<b>\$79,106</b>	<b>\$80,836</b>
Pensions	\$861	\$1,969	\$3,018
Agencies	138	414	416
PEG	(1,553)	(1,471)	(1,456)
FY 2023 Prepayment	(705)	=	=
<b>Net City-Funded Change</b>	<b>(\$1,259)</b>	<b>\$912</b>	<b>\$1,978</b>
<b>November Modification</b>	<b>\$76,639</b>	<b>\$80,018</b>	<b>\$82,814</b>

In contrast, city-funded expenditures in each of FYs 2025 and 2026 were revised upwards by a net \$912 million and \$1.978 billion, respectively. As shown in Table 8, higher pension and agency expenses exceed budget savings by a wide margin. Much of the increase in expenses in each of FYs 2024-26 is due to additional pension contributions from the phase-in of the recognition of FY 2022 pension losses.

As shown in Table 8, PEG savings in the November modification generate \$1.553 billion in FY 2024, \$1.471 billion in FY 2025, and \$1.456 billion in FY 2026. Following the release of the November modification, the city issued another PEG letter. The letter

directed agencies, except for uniformed agencies, to permanently eliminate half of all vacant positions from headcount, which is expected to yield additional savings. In addition, new initiatives, or programs, will not be supported with new funding and must be paid for with existing agency budgets.

## **Education**

The November 2022 modification assumes total-funded expenditures in the Department of Education (DOE) of \$30.999 billion in FY 2023 growing to \$31.059 billion by FY 2026, an increase of \$60 million. For city-funded expenditures, the November modification projects spending of \$14.387 billion in FY 2023 rising to \$15.953 billion in FY 2026, an increase of \$1.566 billion.

Fair Student Funding (FSF) and School Allocation Memoranda (SAMs) are the main source of funding for most public schools.<sup>6</sup> For FY 2022, the total funds received by the DOE for FSF, and SAMs was \$10.662 billion, of which, about \$7 billion were comprised of FSF. This aid was based on general and special education student enrollment of 817,959. Total student enrollment in FY 2022, which includes prekindergarten, kindergarten for three-year old's, charter schools, and the early-learn program, was 1.084 million. However, the DOE expects enrollment to drop for FY 2023. Enrollment for general and special education students falls to 790,639 and total student enrollment to 1.076 million students.

As shown in Table 3 on page 5, we anticipate several risks to the DOE budget that will have a material impact on city finances. Of significance are funding for Carter Cases, charter schools, and pupil transportation. The November 2022 modification assumes about \$446 million in each of FYs 2023-26 to meet the required level of spending for Carter Cases.<sup>7</sup> Using actual spending in FY 2022 of \$918 million as a baselined amount, required funding may be underbudgeted by at least \$472 million in each of FYs 2023-26 and is held at risk. For charter school funding, the November modification does not reflect future increases in the charter school per-pupil tuition rate that is projected to cost the city an additional \$278 million in FY 2024, growing to \$430 million in FY 2025, and to \$723 million by FY 2026. Lastly, there is a likelihood that the cost of pupil transportation will rise over FYs 2024-26 by \$75 million, \$125 million, and \$175 million, respectively, due to the cost of fuel.

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<sup>6</sup> With input from a School Leadership Team at each school, principals decide how to spend FSF funds to meet basic educational needs. FSF is based on the number of students enrolled at each school and the needs of those students. In addition to FSF, schools receive other funding through School Allocation Memoranda (SAMs). SAMs give money to schools for specific purposes. Schools can then budget for the needed services, such as teachers and supplies.

<sup>7</sup> Under the Individuals with Disabilities Education Act, the DOE is required to identify and evaluate students with disabilities and to meet with their parents to recommend appropriate programs and services through an Individualized Education Plan. The DOE pays the cost associated with non-public education of special needs children according to the Supreme Court's decision in *Florence County School District Four v. Carter*.

## **Uniformed Services Overtime**

The November modification estimates overtime spending for Uniformed Services (Police, Fire, Correction and Sanitation Departments) excluding civilians of \$920 million in FY 2023, decreasing to \$850 million in FY 2024, \$849 million in FY 2025, and to \$846 million in FY 2026. Through October 2022, actual overtime expenditures for uniformed personnel totaled \$468 million. Based on these actuals, we believe that the four agencies combined will log overtime of \$1.403 billion by the end of FY 2023. Our assessment of overtime spending over the plan period identifies risks of \$482 million in FY 2023, \$552 million in FY 2024, \$554 million in FY 2025 and \$557 million in FY 2026, as shown in Table 3 on page 5.

On October 22, 2022, the city and state announced a joint initiative between the city and state to reduce subway crime. The joint effort includes an investment from the state's public emergency fund and a commitment to work with the city on a dedicated revenue source to support additional police presence in the subway system. The Police Department and Metropolitan Transit Authority will increase law enforcement presence on city subway platforms by approximately 1,200 additional overtime officer shifts each day on the subway, equating to approximately 10,000 additional overtime patrol hours every day, as well as two new dedicated units at psychiatric centers to help provide those experiencing serious mental health illness with the assistance they need.

## **Budgetary Risks**

As presented in Table 3 on page 5, our analysis of the November modification identified total net risks of \$12 million, \$438 million, \$886 million, and \$962 million in each of FYs 2023 through 2026, respectively. While our analysis shows that revenues could exceed the city's projections by about \$2 billion in each year of the plan, risks to the city's expenditure assumptions outweigh our higher revenue forecast, resulting in projected total budget gaps of \$12 million in FY 2023, \$3.328 billion in FY 2024, \$5.466 billion in FY 2025, and \$6.877 billion in FY 2026. The primary expenditure risks in FY 2023 are the assumption of receipt of federal aid to support asylum seekers, funding for Carter Cases, and overtime spending. Adding to these risks in the outyears are the underbudgeting for charter school tuition increases, pupil transportation, and funding for the cost of increased foster care reimbursement. Other outyear risks are due to the lack of or underfunding of recurring expenditures at the current level. These include funding for rental assistance, adult shelter operations, and prevailing wage for shelter security guards, as shown in Table 3 on page 5.

## **ENSURING CAPITAL INVESTMENT IS SUSTAINABLE AND AFFORDABLE**

A vital task in managing the city's financial health is ensuring that its physical assets can provide for the needs of the population and facilitate economic growth. The city's capital needs are a function of wide-ranging economic and societal developments. To address the infrastructure requirements for providing and maintaining a quality of life, the city has recognized the need for a more efficient and effective capital planning process. In April 2022, the Mayor convened the Capital Process Reform Task Force to undertake a

comprehensive review of the city's capital process with the goal of developing recommendations to reform capital project delivery.

In October 2022, the task force released its initial recommendations spanning several areas of the capital process, including improving the project pipeline, streamlining approvals, managing projects more effectively, reforming procurement, and growing the number of New Yorkers who can participate. Many of the recommendations are the outcome of successful Department of Design and Construction (DDC) initiatives, highlighted in "Blueprint 2022 -- Capital Project Delivery Progress Update, Critical Next Steps." DDC's report highlights accomplishments that have made project management more effective with strategic initiatives to improve the capital construction process, which make sense to extend to other city agencies. The task force plans to release its final recommendations in December 2022, including legislative priorities for the 2023 state legislative session.

In September 2022, the city released a four-year capital plan for FYs 2023-26 totaling \$80 billion in total-funded authorized commitments. Our review of the capital plan composition focuses on the city-funded commitments for individual areas followed by an analysis of tax-supported commitments and capital funding sources. The tax-supported portion of the capital plan is funded by general obligation (g.o.) bonds issued by the city and future tax-secured (FTS) bonds sold by the New York City Transitional Finance Authority (NYCTFA) with the associated debt service included in the city's financial plan, which is also covered in our analysis.

### **City-Funded Authorized Capital Commitments and Priorities**

In September 2022, the city released a revised four-year capital plan for FYs 2023-26 reflecting changes in the scope and timing of scheduled projects. City-funded commitments amount to \$76.2 billion making up 95 percent of the total capital plan. Compared to the prior plan released in the April 2022 executive budget, city funds were increased by \$2.6 billion, comprised of additions to the areas of transit, education and housing. The expansion to transit represents the city's portion of a funding agreement with the state, while growth in housing and education reflects the city's commitment to manage the emergent need for affordable housing, as well as the expansion and upgrades to the city school system.

The capital program funds the outlays for repairs and improvements of infrastructure areas such as the water and sewer systems, streets, highways, bridges, and mass transit, as well as non-infrastructure areas including facilities, equipment, vehicles and technology for the areas of education, housing, parks, corrections, hospitals, courts, police, fire, libraries, and economic development across the five boroughs. Table 9 on page 21 provides an itemization of the current forecasted city-funded authorized capital



commitments for FYs 2023-26 by functional areas categorized into infrastructure and non-infrastructure.<sup>8</sup>

### THE DISTRIBUTION OF FYs 2023-26 CITY-FUNDED AUTHORIZED CAPITAL COMMITMENTS BY FUNCTIONAL AREAS

TABLE 9

(\$ in millions)

	City Funds	Percent of City Funds
<b>Infrastructure</b>		
Dept. of Environmental Protection	\$11,219	14.7%
Dept. of Transportation	8,424	11.1
Transit Authority	3,010	3.9
<b>Infrastructure Total</b>	<b>\$22,654</b>	<b>29.7%</b>
<b>Non-Infrastructure</b>		
Education-DOE & CUNY	14,367	18.8
Housing-HPD & NYCHA	10,577	13.9
Public Safety <sup>a</sup>	9,726	12.8
Gen. & Business Services, Equip. & Energy Efficiency <sup>b</sup>	8,529	11.2
Hospitals, Health & Social Services <sup>c</sup>	5,641	7.4
Parks, Cultural & Libraries	4,731	6.2
<b>Non-Infrastructure Total</b>	<b>\$53,570</b>	<b>70.3%</b>
<b>Total City-Funded Program</b>	<b>\$76,223</b>	<b>100%</b>
<sup>a</sup> Includes Police, Fire, Correction, and Courts		
<sup>b</sup> Includes Small Business Services, Energy Efficiency and Citywide Equipment, Public Buildings and Real Estate		
<sup>c</sup> Includes Health+Hospitals, Sanitation, Health and Mental Hygiene, Human Resources, Children's Services, Homeless Services, and Aging		
Numbers may not add due to rounding.		

For infrastructure work, the Department of Environmental Protection (DEP) has been earmarked \$11.2 billion (or 14.7 percent) of commitments.<sup>9</sup> DEP manages the water supply to ensure that the water and sewer systems are safe, maintained and adequate to meet the needs of city residents. Commitments include reconstruction and replacement of components of the wastewater resource recovery facilities, optimization of existing and construction of new sewer overflow controls in compliance with state and federal mandates; and replacement and expansion of the facilities that protect and maintain the water supply sources including green infrastructure projects.

<sup>8</sup> In distinguishing infrastructure from non-infrastructure areas, we use the traditional public works definition of infrastructure and include the agencies responsible for physical assets that are indispensable to economic activity such as bridges, highways, and traffic and street lighting systems, as well as environmental protection assets supporting the water and sewer system.

<sup>9</sup> DEP commitments are funded with water and sewer rate-supported bonds issued by the NYC Municipal Water Finance Authority (NYW). The related debt service is not part of the city's operating budget.

Also under the infrastructure category are commitments for Department of Transportation's capital projects totaling \$8.4 billion (or 11.1 percent). To facilitate safe and efficient movement of people and goods in the city, the capital plan includes funds to build and maintain roadways, bridges and municipal parking facilities; maintain the ferry system; provide traffic signs as well as streetlights; and purchase automotive and data processing equipment.

In the current capital plan, Transit Authority is projected to receive additional city funds in excess of \$1.5 billion for a total of \$3 billion. The sizeable amount reflects the city's contribution for the funding arrangement between the city, state and Metropolitan Transportation Authority (MTA) to provide \$3 billion of financing for city projects within the MTA's capital plan, including subway and bus fleet enhancements, infrastructure improvements, in-house track rehabilitations, and reconstruction of bus and subway lines.

Included in non-infrastructure commitments at almost 19 percent of the four-year capital plan is education with a projected funding level of \$14.4 billion. Most of this funding is allocated to the Department of Education (DOE) at almost \$14 billion, reflecting an increase of \$892 million compared to the prior capital plan. DOE has the task of educating 1.1 million students, with a network of approximately 1,800 schools. The objectives of DOE's capital program are to address the deterioration of school buildings and produce a school system that meets all building and fire code requirements as well as provide early childhood education facilities, add new seats to alleviate overcrowding, and make a third of all school buildings fully accessible.

The two areas comprising housing, the Department of Housing Preservation and Development (HPD) and New York City Housing Authority (NYCHA) represent \$10.6 billion (or 13.9 percent) of the city capital plan. Compared to the prior plan, NYCHA is scheduled to receive an additional \$699 million in city funds. The sizeable amount of funding for this area is to preserve and modernize building exteriors and systems to maintain safe and sanitary public housing as well as address the city's growing housing needs. In June 2022, the Mayor released "Housing Our Neighbors: A Blueprint for Housing and Homelessness," a comprehensive plan to address the city's affordable housing crisis by creating and preserving affordable housing, in addition to proposing transformative reforms for NYCHA.<sup>10</sup>

To advance the goals of this strategy, in October 2022, the city issued its first social bonds to finance affordable housing projects totaling \$400 million of taxable g.o. bonds. The proceeds will finance over 3,000 units of affordable housing. These social bonds are part of an emerging class of Environmental, Social and Governance (ESG) bonds that

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<sup>10</sup> As part of the Mayor's related plans to deal with the housing issue, on December 8, 2022, the administration released "Get Stuff Built," a comprehensive report with a three-pronged approach to address the city's affordable housing crisis and underlying housing shortage by rapidly accelerating the pace of housing production, with a goal of 500,000 new homes over the next decade.

support projects with positive social and environmental outcomes.<sup>11</sup> The proceeds of the sale will be dedicated solely to reimburse city spending on affordable housing projects, including Extremely Low- & Low-Income Affordability Program (\$322.68 million), the Supportive Housing Loan Program (\$66.14 million) and Senior Affordable Rental Apartments Program (\$10.54 million.)

The area of Public Safety has been allotted \$9.7 billion (or 12.8 percent) of the city-funded capital commitments. The majority of city funds in this area, at \$7.3 billion, is for the Department of Correction, most of which is designated for the design and construction of new borough based jail facilities.

General and Business Services, Equipment and Energy Efficiency is projected to receive \$8.5 billion (or 11.2 percent) of funding. The bulk of city funds, \$5.1 billion, is for Energy Efficiency and Citywide Equipment to largely support projects in the city's comprehensive energy management strategy to achieve citywide greenhouse gas reduction, fund sustainability measures to ensure resiliency in the city, and purchase equipment and services that enable the city to achieve greater productivity.

Hospitals, Health, and Social Services account for \$5.6 billion (or 7.4 percent) of city funds. Health + Hospitals and the Department of Sanitation make up the greater part of this area at \$2 billion and \$1.7 billion, respectively. Health + Hospitals' capital plan focuses on improvements of facilities to comply with regulatory requirements as well as provide for the health care needs of the community. Much of the city funds for Sanitation is for capital investments to replace vehicles and other equipment, as well as the design and construction of garages.

The area of Parks, Cultural and Libraries is scheduled to receive \$4.7 billion (or 6.2 percent) of city-funded commitments with the Department of Parks and Recreation receiving \$3.2 billion mainly for the development, reconstruction and revitalization of parks citywide.

### **Capital Planning**

The city approves authorized levels of commitments that allow for potential delays, changes in project scope and other adjustments to projects. Accordingly, the actual amount of commitments entered into within a fiscal year is comparatively lower resulting in unattained commitments. As part of the city planning process, these unattained authorized commitments are rolled into the following fiscal years. To analyze the capital plan more accurately, we take into account unattained commitments from the prior fiscal year since the city maintains the authorization to undertake these commitments in future years.

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<sup>11</sup> The ESG bonds are intended to broaden the interest in city bonds and deepen the investor base by appealing to the strong and growing demand among investors looking for investment opportunities aimed at addressing specific social objectives.

In our analysis, we focus on the portion of the capital program that is tax-supported, since the related debt service impacts the city's operating budget. When compared to the April 2022 capital plan and taking into account the unattained commitments in FY 2022, the city decreased tax-supported commitments by a net \$1.2 billion, as illustrated in Table 10 on page 24. To accommodate \$3.7 billion of unattained authorized commitments from FY 2022, the city chose to redistribute part of this roll, \$3 billion, through FY 2025.<sup>12</sup> As displayed in the table, the greater part of the roll was reallocated to FY 2024 at \$2.3 billion.

**AFTER ACCOUNTING FOR THE ROLL OF FY 2022 UNATTAINED COMMITMENTS  
THE CITY REDUCED ITS TAX-SUPPORTED AUTHORIZED CAPITAL COMMITMENT  
PLAN COMPARED TO THE PRIOR PLAN**

TABLE 10

(\$ in billions)

Fiscal Year	April 2022 Capital Plan	Change	September 2022 Capital Plan
2022	\$14.408	(\$3.705)	\$10.703*
2023	18.144	0.484	18.628
2024	16.486	2.325	18.811
2025	15.126	0.168	15.294
2026	12.723	(0.452)	12.271
<b>Total</b>	<b>\$76.887</b>	<b>(\$1.180)</b>	<b>\$75.707</b>
*FY 2022 Actual			

From the large pool of authorized commitments, the city establishes a capital schedule of targeted commitments that is based on practical timetables and programmatic considerations. The targeted commitment levels are used to project the long-term borrowing amounts and resulting debt service included in the financial plan. Based on FY 2022 actual data, the city entered into \$10.7 billion of tax-supported commitments, which is \$1.3 billion, or 14.3 percent, over its FY 2022 target of \$9.4 billion. In the prior 10 years, FYs 2012-21, the city had surpassed its tax-supported capital commitment target in only two years, FYs 2018 and 2019, by approximately five and 18 percentage points, respectively, while falling short by a range of seven to 36 percentage points in the other fiscal years. Given the city's recent proposals to improve the capital planning and project delivery process, we would expect future commitment targets will be met or possibly exceeded.

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<sup>12</sup> In the September 2022 capital plan, the city also released capital commitments through FY 2032, with tax-supported commitments totaling \$126 billion, showing a redistribution of commitments that resulted in an overall increase through the 10-year period.

## Capital Funding

In reviewing the funding sources for the capital program, we analyze the changes to the targeted amounts from the prior four-year capital plan released with the executive budget in April 2022. In the city's September capital plan for FYs 2023-26, the city is projecting over \$71 billion in total-funded targeted commitments with \$67.5 billion funded by city sources and \$3.7 billion funded by noncity sources, as shown in the figure to the right. Over the four-year period, commitments funded with tax-supported bonds issued by the city and the NYCTFA make up 81 percent of the total program at \$57.7 billion, while the Department of Environmental Protection commitments funded with water and sewer rate-supported bonds issued by the NYC Municipal Water Finance Authority (NYW) comprise \$9.7 billion, or 14 percent. Compared to the prior capital plan, city-funded commitments represent a net decrease of \$2.35 billion. The entire reduction was in tax-supported commitments resulting from a decrease of almost \$3 billion in commitments projected for FY 2023. The decline in tax-supported commitments is reflected in debt service savings.

FYs 2023-26 Capital Plan Change from April 2022 by Funding Source (\$ in billions)		
	Targeted	
	Commitments	Change
Tax-Supported	\$57.749	(\$2.412)
NYW-Supported	9.733	0.062
<b>City-Funded</b>	<b>\$67.482</b>	<b>(\$2.350)</b>
Noncity-Supported	3.749	0.344
<b>Total</b>	<b>\$71.231</b>	<b>(\$2.006)</b>

## Debt Service Savings

The city-fund savings in the Program to Eliminate the Gap released with the November 2022 modification include net reductions in projected debt service costs of \$83 million in FY 2023, \$116 million in FY 2024, \$148 million in FY 2025 and \$159 million in FY 2026, as displayed in Table 11. Debt service costs for the city g.o. and NYCTFA FTS bonds were updated in the modification to reflect the reduction to the bond financing schedule as well as the terms of actual new money and refunding bond sales. The decreased costs in these debt service components outweighed an increase in variable debt costs.

### NET DEBT SERVICE SAVINGS

TABLE 11

(\$ in millions)

Changes from June 2022 Plan	FY 2023	FY 2024	FY 2025	FY 2026
City & NYCTFA Actual & Projected Debt Service Savings	(\$46)	(\$96)	(\$128)	(\$138)
NYCTFA FTS & BARBs Refunding Savings	(68)	(45)	(45)	(45)
City & NYCTFA Variable Debt Costs	31	26	25	25
<b>City-Fund Savings Subtotal</b>	<b>(\$83)</b>	<b>(\$116)</b>	<b>(\$148)</b>	<b>(\$159)</b>
NonCity Funds	(15)	(15)	(14)	(12)
<b>Total Debt Service Savings</b>	<b>(\$98)</b>	<b>(\$131)</b>	<b>(\$162)</b>	<b>(\$171)</b>
Numbers may not add due to rounding.				

Compared to the June 2022 financial plan, the decline in debt service costs, which include the actual terms of bond sales undertaken as well as projected debt service, represents the largest portion of city-fund debt service reductions. The greater part of the

savings in this grouping was created by changes to the city's annual borrowing amounts from levels in the prior plan to reflect the decrease in targeted tax-supported commitments projected in the current four-year capital plan. The reduction in the long-term borrowing schedule for city g.o. and NYCTFA FTS bonds in the four-year plan period totals \$860 million, with most of the decrease projected in FYs 2023 and 2024 at \$400 million and \$280 million, respectively. In addition, the November modification includes the actual terms for bond sales undertaken through October that were more favorable than had been projected in the June 2022 financial plan.

In the current fiscal year, the refunding bond sales undertaken by the NYCTFA generated \$68 million of the debt service savings in FY 2023 and \$45 million in each of FYs 2024-26, as shown in Table 11 on page 25. Early in FY 2023, the NYCTFA held two refinancing sales totaling \$935 million and \$564 million, which refunded outstanding FTS bonds and Building Aid Revenue Bonds (BARBs), respectively. The city did not sell any g.o. refunding bonds through November.

Partially offsetting the debt service savings are the increased costs associated with variable rate debt. Typically in each financial plan modification, the city adjusts its conservative variable rate assumption downward adding to debt service savings. Due to the Federal Reserve's increases to interest rates, the city has chosen to hold its conservative variable interest rate assumption at 4.25 percent rather than make an adjustment in the November modification. Earlier in the fiscal year, the city and NYCTFA issued adjustable rate bonds totaling \$600 million, which adds to variable debt expenses. Also increasing the city-funded variable rate costs is the net change in payments and receipts from the termination of an Interest Rate Exchange Agreement referred to as a swap.<sup>13</sup> The city decided it was more economical to terminate one of their two remaining swaps, thereby removing both the associated expense and revenue. In doing so, the related noncity funds in the form of categorical aid (swap receipts) were decreased by \$15 million in each of FYs 2023-24, \$14 million in FY 2025 and \$12 million in FY 2026, as shown in Table 11 on page 25.

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<sup>13</sup> Given the inherent nature of variable rate debt, the city in past years entered into several swap agreements in an attempt to hedge some of this exposure. In such agreements, the city made arrangements with a number of financial institutions to exchange interest payments for a specific time range and a notional amount of money associated with certain variable rate bonds. With the recent termination of the swap in October 2022, the city has one remaining swap outstanding with a notional amount of \$43.5 million as of September 30, 2022.

## **Debt Service Costs**

Based on the capital funding schedule, city and NYCTFA total-funded debt service costs net of prepayments in the November modification are projected to increase from \$7.7 billion in FY 2023 to \$8 billion in FY 2024, \$8.4 billion in FY 2025 and \$9.2 billion in FY 2026, as illustrated in the figure to the right. Such rising debt service costs are contributing to the projected budget deficits of \$2.9 billion in FY 2024, \$4.6 billion in FY 2025 and \$5.9 billion in FY 2026, as the share of resources needed to make the annual debt service payments increases. The plan assumes that the city will realize a budget surplus of \$705 million in FY 2023, which will be used to prepay FY 2024 debt service costs. As illustrated in the figure above, debt service is estimated to grow as a percent of tax revenues from 11.3 percent in FY 2023 to 12.9 percent in FY 2026.

City and NYCTFA Debt Service as Percentage of Tax Revenues (\$ in millions)			
<u>FY</u>	<u>Debt Service</u>	<u>Tax Revenues</u>	<u>Debt Service as Percent of Tax Revenues</u>
2023	\$7,655	\$67,749	11.3%
2024	7,955	68,387	11.6%
2025	8,435	70,073	12.0%
2026	9,203	71,517	12.9%
Avg. Annual Growth Rate	6.3%	1.8%	

Despite growth in the plan years, debt service costs remain under 15 percent of tax revenue, which is determined to be the level of affordability by the city. Although the burden is projected to remain affordable, debt service is projected to grow at a faster average annual rate of 6.3 percent compared to tax revenues at 1.8 percent over FYs 2023-26. Potentially putting further upward pressure on future debt service projections is the combination of rising interest rates and increasing capital construction costs due to inflation. As discussed in the “Economic and Revenue Outlook,” the city’s economy is facing a number of challenges, mainly inflation as well as the Federal Reserve’s ability to orchestrate a soft landing for the economy and the potential of an increase in COVID infections from the emergence of new strains of the virus. Even with changes in economic indicators, the city chose not to adjust its tax revenue estimates in the November modification. Based on our risk analysis, tax revenues could be higher than the city estimates, as presented in Table 3 on page 5. Given the potential factors affecting debt service and the uncertainty surrounding the city’s economy, we encourage the city to be more judicious in planning the size of the capital program in its upcoming preliminary ten-year capital strategy to ensure it remains manageable and within the affordability parameter.

### **III. Glossary of Acronyms**

<b>ARPA</b>	American Rescue Plan Act
<b>BARBs</b>	Building Aid Revenue Bonds
<b>BSA</b>	Budget Stabilization Account
<b>CPI</b>	Consumer Price Index
<b>CUNY</b>	City University of New York
<b>DDC</b>	Department of Design and Construction
<b>DEP</b>	Department of Environmental Protection
<b>DOE</b>	Department of Education
<b>DoITT</b>	Department of Information Technology and Telecommunications
<b>ESG</b>	Environmental, Social and Governance
<b>FCB</b>	Financial Control Board
<b>FEMA</b>	Federal Emergency Management Agency
<b>FSF</b>	Fair Student Funding
<b>FTS Bonds</b>	Future Tax Secured Bonds
<b>FY</b>	Fiscal Year
<b>GDP</b>	Gross Domestic Product
<b>G.O. Bonds</b>	General Obligation Bonds
<b>HPD</b>	Department of Housing Preservation and Development
<b>MTA</b>	Metropolitan Transportation Authority
<b>NYCHA</b>	New York City Housing Authority
<b>NYCTFA</b>	New York City Transitional Finance Authority
<b>NYW</b>	NYC Municipal Water Finance Authority
<b>PCE</b>	Personal Consumption Expenditure
<b>PEG</b>	Program to Eliminate the Gap
<b>PIT</b>	Personal Income Tax
<b>SAMs</b>	School Allocation Memoranda
<b>SLFRF</b>	State and Local Fiscal Recovery Funds



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